IPR2 Follow Up: BPA's Proposed Approach

Revised as of 4/14/15

Context

- BPA is facing significant pressure on its long-term cost structure.
- BPA needs to take actions now while also looking into future actions including:
  - refining its long-term service delivery model for Power Services
  - developing a strategic financing plan
  - developing our approach to cost management
- BPA sees this as a major opportunity to avoid future borrowing for Energy Efficiency while still upholding our commitment to interim Energy Efficiency targets for FY'16-17.

What we heard from constituents and customers

- Constituents opposed a transition to expense and expressed concern about any reductions to EE funding levels.
- Some customers support transitioning EE to expense with no BP-16 rate impact.
- Some customers expressed interest in a two rate period transition that offsets any rate impacts through additional spending cuts.

Proposed Approach

- Transition the full EE Capital Program to expense in BP-16
- Offset $20 million per year of the rate impact through reductions to spending levels.
- Eliminate the remainder of the BP-16 rate impact associated with the EE capital to expense transition and smooth the remaining transition with debt management.

Ongoing Engagement

BPA is committed to ongoing discussions with customers and constituents as BPA works to develop a sustainable long-term cost structure.

This will include engagement on:

- Power program delivery models (including EE)
- Enhanced budgeting
- Long-term rate forecasting
- Sustainable financing plans

Expected Outcomes

- **Short-Term (BP-16 to BP-18)**
  - EE program transitioned in FY'16
  - IPR and EE Capital costs that are 1.3% lower than in BP-14
  - Ongoing IPR cost savings
  - No incremental Power rate impact in BP-16 or forecast for BP-18
- **Mid-Term (BP-20 to BP-22)**
  - ***Higher costs:*** Compared to the IPR2 base case, this transition is expected to increase rates by about 2% in BP-20 and in BP-22.
  - ***Smooth rate impacts:*** Compared to the prior rate period, this proposal is expected to increase BP-20 rates by about 1% and then cause rates to go down slightly in BP-22.
- **Long-Term (2028)**
  - All EE debt off the books
  - Avoid $1.3 billion of potential EE debt
  - Ongoing amortization and interest savings

Annual Average Proposed Spending Reductions & Interest Savings

- $20 million per year in program reductions:
  - $9.9 million per year from staffing lags and increased risk to Power Services
  - $2.7 million per year from staffing lags and increased risk to Agency Services
  - $7.4 million per year from lags in BPA managed programs and from acquiring 3 aMW per year from the Energy Smart Reserve Power program instead of the EEI budget.
- In addition, BPA expects $1.5 million per year in interest savings from debt management

		FY'16-17 Average
Power Programs and Internal Costs		
Staffing	$	(0.2)
Undistributed Reductions	$	(9.7)
Agency Services Internal Costs		
Undistributed Reductions (including Staffing)	$	(2.7)
Energy Efficiency (Capital)		
BPA Managed	$	(2.4)
Energy Efficiency Incentives	$	(5.0)
Total Budget Reductions	**$**	**(20.0)**
Interest savings	$	(1.5)
Grand Total	**$**	**(21.5)**

Debt Management

- Refinance $757 million of Energy Northwest bonds not previously included in the refinancing of Regional Cooperation Debt.
  - Use $260 million of the amount freed up in the BPA Fund as a result of the extension to smooth the rate transition to expense in FY'16-18.
  - Use the remainder of the freed up funds ($497 million) to pay off high interest federal debt earlier than expected for a savings of nearly $21 million ($1.5 million per year in BP-16).
- Compared to the IPR2 base case scenario, this avoids $1.3 billion of potential debt related to EE.

Why Debt Management for EE

- Using debt management to transition the EE budget to expense is estimated to save nearly $500 million compared to paying off additional high interest appropriations earlier than planned.

	All for Accelerated Savings	IPR2 Proposed Scenario
Use of DSR Refinancing for Accelerated Savings	$ 757	$ 497
Use of DSR Refinancing for EE Transition	$ 0	$ 260
From 2016-2031:		
Foregone Accelerated Savings from EE Transition:		~($ 0.5 million)
Additional Interest cost related to DSR extension:		($ 124.4 million)
Interest savings from avoiding issuance of EE debt:		$ 615.9 million
Net:		~$ 491.0 million

Benefits to Energy Efficiency

- Benefits to expensing EE
  - It creates rate impact parity between savings acquired through expense programs and those funded with BPA Managed “capital” dollars.
  - Expense funding provides more flexibility to design 3rd party programs without needing to design around capitalization requirements.
- A one rate-period transition benefits EE by:
  - Avoiding the implementation challenges of 3rd party financing or billing credits.
  - Avoiding the implementation challenges of a blended Energy Efficiency Incentive budget such as:
    - systems changes to support multiple funding sources.
    - potential inability to support program features such as bilateral budget transfers between utilities with different funding sources.
- Proposal’s budget reductions are consistent with BPA’s plans for achieving the interim Energy Efficiency targets in FY’16-17.

Next Steps

- April 6th – 22nd
  - Outreach to customers, constituents and the Northwest Power and Conservation Council
  - Energy Northwest PRB meeting
- April 23rd
  - Energy Northwest Executive Board Meeting
- Early May-
  - Final Decision
  - Quarterly Business Review

Financial Disclosure

- This information has been made publicly available by BPA on April 14, 2015 and contains information not reported in agency financial statements.